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Brazil

Solid Wood Products

Annual

2002

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Report Highlights:
Production of solid wood products is expected to increase in 2003 by an average 4 percent. The two major factors contributing for this growth are: higher demand from the construction and furniture industries, and higher exports of solid wood products. More conservation and environmentally focused policies are likely when the new Brazilian government takes office in 2003.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

The economic outlook for 2003 calls for a slight improvement in the major economic indicators, such as economic growth at 2.3 percent, inflation around 9 percent, unemployment rate at 7.2 percent, and a significant trade surplus of US$15.6 billion, boosted by an exchange rate projected at US$3.60 per Real.

The improvement in these economic indicators plus the focus on social programs to be carried out by the new Brazilian government, which takes over on January 1, 2003, will likely have a positive impact on the forest products sector. Growth in production is expected for all forest products due to higher domestic demand from the construction and furniture industries, and by higher exports of wood products due to a favorable exchange rate. The designated new Minister of the Environment, current Senator Marina Silva, from the Amazonian state of Acre, has stated that her goal will be to balance conservation with development. However, sector leaders are also concerned with the focus on conservation and environmental policies to the detriment of forest production policies.

Production

Brazil remains without a reliable inventory of its forest resources, mostly in the Amazon region, which makes if difficult to estimate the exact forest area, There is no official data on solid wood production. Information provided in the Forest Area Strategic Indicator Table and on the PS&D tables are our best estimates, and data is derived from interviews with industry leaders and unofficial data furnished by our contacts in the sector.

Forest Situation Report/Outlook

Brazil has a rich and diversified vegetation characterized by various forest ecosystems, which results from climatic, geological, and relief differences found in its vast territory. The principal forest resource base of Brazil is the Amazon region with approximately 260 million hectares or 40 percent of Brazil's territory. It contains nearly 80 percent of the forest resources of the nation.
The other important resource base is the "Cerrado" (savanna) with 140 million hectares or 25 percent of the

country's territory, followed by the "Caatinga" with 83 million hectares in the drylands of Brazil's Northeast region. Other important ecosystems are the "Pantanal" in the wet land areas of Central Brazil, the Atlantic forest along the coast of Brazil, and the temperate forest of the South, mostly consisting of pine and eucalyptus plantations.

The native forests cited above are not the only major source of timber for Brazil's forest products industry. In fact, the panel products and the pulp and paper industries rely mostly on industrial plantations with an estimated area of 6 million hectares. While most of the native forests are made up of hardwoods, such as the Amazon region which accounts for nearly 20 percent of the world's tropical hardwood forest resources, the industrial plantations consist primarily of eucalyptus (50 percent) and pine (40 percent). Except for the Amazon forest, the location of major stands is relatively close to the forest products industry, as well as to the pulp and paper mills. Except for the Amazon region, where seasonal floods are a major constraint, accessibility to timber resources is not a major problem in Brazil. However, since most logs are transported long distances by trucks, fuel costs and poor road conditions significantly increase production costs. Although growth rates can be as high as 80 cum/ha/year in some of the most modern eucalyptus plantations, the average growth rates are much lower due to poor management, harvesting practices, and lack of technology.

Conservation and environmental policies in Brazil are restricting further illegal timber cuts, mostly in the Atlantic forest. However, in the Amazon, illegal timber removals remain a major problem despite the heavy penalties that can be applied by Brazilian inspectors. There are no reliable numbers on illegal timber removed from the Amazon region. Our best estimate is that about 25 million cubic meters of logs are removed from the Amazon region, per year, and only 20 percent are from areas with forest management. All other timber comes from illegal deforestation, Indian reserves, and public lands. Contrary to what is commonly said, the majority of illegal timber from the Amazon is not exported, but its major destination is the Southeast and Southern regions of Brazil, mostly the state of Sao Paulo. According to the Association of Timber Exporters from the State of Para (AIMEX), the volume of timber exported from the Amazon region corresponds to the volume removed from areas under forest management.

In addition to the illegal timber removals, the commercial forest sector in the Amazon also faces other constraints which contribute to higher production costs, such as: lack of adequate long-term financing, international pressure for conservation and preservation of the Amazon forest, competition from livestock (cattle raising), crops (mostly soybeans in the new frontier areas), road openings, forest burnings, and the landless agrarian movement in Brazil.

The most recent survey of the Amazon deforestation shows that the rate of deforestation reached 14.9 percent, between August 1999 and August 2000, which raised strong criticisms from environmental NGOs. Trade sources in the Amazon have reported to OAA that forestry related activity is actually responsible for only 2 percent of the total deforestation in the Amazon region. During a recent international congress in Belem, wood exporters from the Amazon region expressed their concerns that, in Brazil, one government agency (IBAMA) deals at the same time with forest industry development and environmental issues, with environmental policies frequently overruling commercial forest development policies.

Most of the forests in Brazil are privately owned and managed, while government forests are mostly for protection and preservation. Government incentives for reforestation and afforestation projects ended in 1986. Since then, practically all reforestation projects have been carried out by private companies, mostly by the pulp and paper, charcoal, and panel industry sectors. From 1987 through 1992, the average annual reforested area in

Brazil was 197,000 hectares, which dropped to an average of 150,000 hectares, per year, during the past 5 years. Industry leaders estimated that by 2005 Brazil may have problems in meeting domestic wood demand. They estimate the current deficit of reforested area in Brazil around 300,000 hectares per year. Total investment during 6 years required for new planted forest areas, per year (300,000 hectares), is estimated at US$1.5 billion.

The mahogany (Swietenia macrophylla) controversy in Brazil derives partly from a lack of consistent and reliable government data about production of hardwood in the Amazon region. According to our trade sources, the Amazon region produces about 25 million metric cubic of hardwood logs per year, of which mahogany logs account for 0.35 percent only. It is estimated that Brazil has 150 million hectares of forests with mahogany species, of which 50 million hectares are located in Indian reserves. The availability of mahogany logs is estimated at 13 million cubic meters. Before the official prohibition in October 2001 to exploit mahogany in the Amazon region, it is estimated that 136,000 cubic meters of mahogany logs were sold in Brazil, of which 29,000 cubic meters of sawnwood mahogany were exported. Our trade sources also observed that 60 percent of the sawnwood mahogany production is destined to the domestic market, mostly Sao Paulo and Parana, while 40 percent is exported. It is also estimated that there are about 32 companies in Brazil processing mahogany, of which 12 are located in the Amazon region.

The exploitation of mahogany was prohibited by the Brazilian government in October 2001 until March 2003 as a means to maintain the species under the Annex III of the CITES. Beginning in March 2003, the Brazilian government is expected to publish new rules for the sustainable management mahogany. However, the recent Conference of Parties of CITES, on November 15, 2002 decided to include mahogany under Annex II of the CITES. Trade sources in Brazil expect an increase in the price of mahogany from the current average level of US$1,400 per cubic meter.

The U.S. court case on mahogany shipments. On November 21, Federal District Court Judge Thomas P. Jackson held a status conference on the lawsuit by seven bigleaf mahogany importers against the United States Government for holding shipments from Brazil until their legal origin is verified. The Department of Justice reported that additional information had been received from Brazil since the original hearing and that some shipments had been released as of October 25. Although the Judge considered that no final agency action had yet been taken with respect to the mahogany, he set a deadline of January 31 for the USG to file a summary judgment motion and a final, complete administrative record on the case. A hearing on cross motions for the summary judgment will be held on February 29, 2003. In order to comply with the court, the USG has requested from the Brazilian government all available information on the legal status of shipments to the United States.

Solid Wood Products Situation/Outlook

Tropical hardwood logs. Production is expected to continue to increase in 2003 reflecting an improvement in the Brazilian economy and increase in the area of Certified Forest in the Amazon region. According to private analysts, wood producers in the Amazon are obtaining 20 percent above market price for certified wood. Demand for forest certification is also increasing because some of the governments in the region are now offering tax incentives for wood companies that can present to government officials sustainable forest management projects.

The Forest Stewardship Council (FSC) has accredited three institutions in Brazil to issue forest certificates and the Brazilian government has also announced the Certification of Origin of Forest Raw Material - CERFLOR, in partnership with several Brazilian institutions.

Tropical hardwood lumber. Production of hardwood lumber is expected to increase by more than 15 percent in 2003 because of higher wood demand from the domestic industry and increased exports. The new federal administration is expected to provide more financing to the lower Brazilian classes, which may improve demand for home construction in 2003-04. In addition, a favorable exchange rate will improve exports of Brazilian hardwood which is now more competitive in the world market.

The lumber industry in Brazil is composed of nearly 10,000 companies, mostly small and medium scale operations. Over the past 5 years, the lumber industry has gone through structural changes, increasing its competitiveness, technology, and investment. The distribution of lumber in Brazil by main sectors are: retail (36 percent), construction (21 percent), furniture (16 percent), industry in general (15 percent), and all others (12 percent). The wood originating from planted forests has increased its share of total lumber produced from 25 percent in the early 1990's to approximately 30 percent this year.

Softwood lumber. Production from pine plantations in the South continues to rise as plantations began to mature. Post estimates an average increase in production of softwood lumber in 2003 around 4 percent boosted by increased exports of softwood lumber and by increased use of this wood in the furniture industry. However, forest consultants are predicting a deficit in softwood lumber production in the near future if further investments in afforestation projects are not accelerated.

Softwood plywood. Total production of plywood (both hardwood and softwood) will increase by over 3 percent in 2003, mostly due to higher demand from the export market and from the domestic furniture market. Brazil's furniture exports are booming to markets in Europe and in the United States.

The Brazilian plywood association does not differentiate between softwood and hardwood plywood production. However, based on interviews with industry sources, OAA has updated the breakdown in production to identify the origin of the wood using 40 percent for softwood harvested (from the planted pine forests in the south and southeast regions) and 60 percent for hardwood. The plywood industry in Brazil consists of nearly 300 companies, of which 62 percent are medium and large scale companies, while 38 percent are small scale companies. The installed production capacity of the plywood industry in Brazil is estimated at 2.3 million cubic meters, of which 40 companies account for 60 percent of this capacity. The breakdown of plywood production in Brazil is distributed as follow: furniture (45 percent), construction (34 percent), packaging (17 percent), all others (4 percent).

Trade

Based on January-October data, Post estimates for 2002 another record year for exports of forest products (chapter 44 of HTS, including charcoal) at US$1.7 billion, and a drop in imports of 15 percent. The most important reason is the significant devaluation of the Brazilian currency during 2002. In 2003, Brazil's forest products exports are expected to reach new record levels while imports will stabilize, mostly from MERCOSUL countries. Exports are expected to increase in 2003 because of the favorable exchange rate policy and due to new markets in view of the increasing market promotion activities of the Brazilian forest and furniture industries.

The total value of Brazilian exports of forest products in 2001, reached approximately US$1.5 billion, up 1 percent from record levels in 2000. Sawnwood exports at US$ 525 million, were up 2.4 percent from 2000, reflecting increased exports of softwood lumber from planted forests in southern Brazil. Export prices were stable in 2001 compared to 2000 due to an excess of softwood lumber in the northern hemisphere. The major markets for Brazilian lumber were: United States (37 percent), France (8 percent), Spain (7 percent), and China (7 percent). In 2001, exports of plywood increased by over 10 percent in volume, but the value dropped by nearly 4 percent due to lower export prices.

Policy

Since our last annual report, two major policy issues have affected the forest sector in Brazil: a) The revision of the Brazilian National Forest Code of 1965, and b) the National Forest Plan (PNF, in Portuguese). The revision of the Forest Code, Law 4,771/65, which was altered by Provisional Measure Number 2,080/96 (now in the 67th edition), increased the forest protection in each individual farm in the Amazon from 50 to 80 percent of each farm.

On September 5, 2001 a draft proposal prepared by Congressman Micheletto was approved by the Joint Committee of the Congress which revised the Forest Code. The draft bill, approved in the Committee, decreases the protection area in the Amazon from 80 to 50 percent, per farm, and in the Cerrado region from 35 to 20 percent. To become law and replace the Forest Code, the bill must be approved by a joint session of the Congress (House and Senate), and submitted to the President for final signature. This battle over the reform of the Forest Code will continue in 2003 under intense pressure by a national campaign organized by nearly 310 NGOs against the Micheletto bill.

The National Forest Plan (PNF) was created by Presidential Decree No. 3,420 on April 20, 2000, but was officially announced in October of 2000. The PNF is part of a major National Government Plan (PPA 2000-2003), and has three main program areas: a) Expansion of the planted and managed forest base (Florestar), b) Sustainable Forests (Sustentar), and, c) Prevention against Deforestation, Burnings, and Forest Fires (Florescer). Total investments allocated for these program areas are estimated at US$1.5 billion over a 3 year-period. For 2001, the program has funds allocated to both private and public parties of US$285 million. The most important aspects of the PNF are:

a) increase by 50 million hectares (124 million acres) the National Forests (FLONAS) in the legal Amazon area by the year 2010 (10 million hectares by 2003). Currently, Brazil has 49 FLONAS totaling 15 million hectares, of which 99 percent are in the Amazon. The regulatory framework for the FLONAS is from 1994 (Decree Number 1298), but so far only one FLONA (Tapajos), in the Amazon was open for an experimental exploitation of its forest resources. Final regulations to allow the private sector to explore these forests are not in place yet;

b) ensure that 10 percent of the future demand for logs is supplied from these FLONAS;

c) designate 20 million hectares of forests in the Amazon region for a sustainable production program by 2010;

d) create a forest development fund with an annual budget of US$40 million;

e) improve logging efficiency by 50 percent, by 2003;

f) increase Brazil's share of the world tropical wood market from 4 to 10 percent by 2010;

e) increase exports of high-value wood products (including furniture products) by 30 percent by 2010; and,

f) maintain the current leadership in both the domestic and external markets for pulp and paper

The outlook concerning government policies for the forest sector in 2003 is uncertain, as private sources are concerned with the conservation and environmental focused policies of the new federal administration to take over in

January 1, 2003. The concern is that environmental policies will prevail over forest production policies. In view of this possibility, forest sector leaders have delivered a paper to the new elected President of Brazil, calling for the creation of a new Forest Production Agency, directly linked to the Office of the President, to foster the development of afforestation projects in Brazil, which requires large amounts of long-term funding. These leaders claim that the best way to preserve the Amazon forest is to incentivate (read subsidize) the afforestation projects, and implied that beginning in 2004, Brazil will have a deficit in wood production.

Marketing

The federal government has identified 12 productive "chains" from the Brazilian industry in general, including the wood and furniture sectors, with the potential to increase their international competitiveness, generate jobs and income, and promote development and positive trade balances. The Export Promotion Agency - APEX, created by the federal government in 1997, is responsible for coordinating and financing up to 50 percent of the cost of promoting Brazilian products overseas and attracting more small and medium sized companies into the export business. APEX, has two programs related to the forest sector, which are similar to FAS Market Access Program: APEX/ABIMOVEL - The Brazilian Association of Furniture Industry, and APEX/ABIMCI - The Brazilian Association of Mechanically Processed Timber.

The APEX/ABIMOVEL is a cost-sharing market promotion program valued at US$6.5 million (50 percent paid by APEX) to promote Brazilian furniture in targeted markets, such as the United States and Europe. The goal is to increase furniture exports by 19 percent, per year, until 2004, and increase the current total export value of the sector to US$1 billion. Promotional activities include: market research, trade shows, trade missions, reverse trade missions, advertising in specialized media, and publication of catalogs. The Brazilian furniture sector is composed of more than 70,000 firms, mostly small companies, with a total gross income of US$4.1 billion.

The APEX/ABIMCI is also a cost-sharing market promotion program, but has not been fully implemented. To date, APEX financed 30 percent of a Brazilian trade mission to China and Japan to research market opportunities for Brazilian plywood. ABIMCI is now proposing a major market promotion program valued at US$8 million to double Brazilian exports of plywood within 4 years. According to ABIMCI contacts during the International Congress in Belem, market promotion efforts are targeted at high-value products, and will include activities in the most important world trade shows, visits to importers, mostly in Europe, reverse marketing missions, specialized media teams, and catalogs.

Strategic Indicator Tables

FOREST AREA					
Country: BRAZIL	2,001	2,002	2,003		
Report Year: 2002	Calendar Year	Calendar Year	Calendar Year		
Total Land Area (million hectares)	846	846	846		
Total Forest Area (million hectares)	412	412	412		
--of which, Commercial ('000 hectares)	245	245	245		
----of commercial, tropical hardwood ('000 hectares)	240	239	238		
----of commercial, temperate hardwood ('000 hectares)	2	3	3		
----of commercial, softwood ('000 hectares)	3	3	3		
Forest Type					
--of which, virgin ('000 hectares)	195	180	178		
--of which, plantation ('000 hectares)	5	5	6		

--of which, other commercial (regrowth) ('000 hectares)	2	2	2		
Total Volume of Standing Timber (thousand cubic meters)					
--of which, Commercial Timber ('000 cum)					
Annual Timber Removal ('000 cum) 1/	168	170	172		
Annual Timber Growth Rate ('000 cum)					
Annual Allowable Cut ('000 cum)					
1/ If Removals exceeds growth rate, analyze impact in text.					

WOOD PRODUCTS SUBSIDIES					
Country: BRAZIL	Previous	Current	Following		
Year of Report: 2002	2,001	2,002	2,003		
Total Solid Wood Export Subsidy Outlay ($US million)					
Is there a ban on the export of logs, lumber, or veneer? 1/					
Are there export taxes (yes/no)? 2/	no	no	no		
Total Wood Production Subsidy ($US million)	6	6	7		
Scope (thousands of hectares)	n/a	n/a	n/a		
Are there other wood products export expansion activities? 1/					
1/ If yes, describe in report.					
2/ If yes, identify in Tariff and Tax Strategic Indicator Table.					

FOREST PRODUCT TARIFFS AND TAXES (percent)		Tariff	Tariff		
Country: BRAZIL	Product	2,002	2,003	Total Cost	Export
Report Year: 2002	Description 1/	Year	Year	of Import 2/	Tax
4401	Fuel Wood	3.5	3.5	23.5	0
4403	wood in the rough	3.5	3.5	23.5	0
4404	hoop wood	3.5	3.5	23.5	0
4405	wood wool	3.5	3.5	23.5	0
4406	Railroad sleepers	5.5	5.5	25.5	0
4407	Sawnwood	7.5	7.5	27.5	0
4408	Veener Sheets	11.5	11.5	31.5	0
4409	Wood Flooring	11.5	11.5	31.5	0
4410	Particleboard	11.5	11.5	31.5	0
4411	Fiberboard	11.5	11.5	31.5	0
4412	Plywood	11.5	11.5	31.5	0
4413	Densified wood	11.5	11.5	31.5	0
4414	Wooden frames	11.5	11.5	31.5	0
4415	Packing cases	11.5	11.5	31.5	0
4416	Barrels	11.5	11.5	31.5	0
4417	Tools	11.5	11.5	31.5	0
4418	Carpentry wood	15.5	15.5	35.5	0
4419	Tableware	15.5	15.5	35.5	0
4420	Wood marquetry	15.5	15.5	35.5	0
4421	Other articles of wood	15.5	15.5	35.5	0
4422	n/a				
4423	n/a				
4424	n/a				
4425	n/a				
Pre-fabricated Houses, a subsection under chapter 96		19.5	19.5	39.5	0
1/ Insert additional lines for Commodity tariff identification should tariffs vary within the four-digit designation					
for major products exported by the U.S. (e.g., 4412.19: softwood plywood 3%, 4412.XX: other plywood, 9%).					
2/ Calculate as tariff plus other import taxes/fees assuming a commodity value of $100.					

PS&D Tables

Tropical Hardwood Logs, PS&D Table

PSD Table						
Country	Brazil					
Commodity	Tropical Hardwood Logs				1000 CUBIC METERS	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/1995		01/1996		01/1997
Production	28270	28270	28835	28835	0	29700
Imports	180	0	120	0	0	0
TOTAL SUPPLY	28450	28270	28955	28835	0	29700
Exports	130	13	120	14	0	20
Domestic Consumption	28320	28257	28835	28821	0	29680
TOTAL DISTRIBUTION	28450	28270	28955	28835	0	29700

Tropical Hardwood Logs, Export Trade Matrix

Export Trade Matrix			
Country	Brazil		
Commodity	Tropical Hardwood Logs		
Time period	Jan-Dec	Units:	CUM
Exports for:	2001		2002
U.S.	0	U.S.	0
Others		Others	
European Union	9054		5485
India	4420		6843
Total for Others	13474		0
Others not Listed	0		1817
Grand Total	13474		14145

Tropical Hardwood Lumber, PS&D Table

PSD Table						
Country	Brazil					
Commodity	Tropical Hardwood Lumber				1000 CUBIC METERS	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/1996		01/1997		01/1998
Production	14800	14800	15300	15300	0	15912
Imports	140	48	130	33	0	30
TOTAL SUPPLY	14940	14848	15430	15333	0	15942
Exports	950	316	1045	370	0	425
Domestic Consumption	13990	14532	14385	14963	0	15517
TOTAL DISTRIBUTION	14940	14848	15430	15333	0	15942

Tropical Hardwood Lumber, Export Trade Matrix

Export Trade Matrix			
Country	Brazil		
Commodity	Tropical Hardwood Lumber		
Time period	Jan-Dec	Units:	CUM
Exports for:	2000		2001
U.S.	87259	U.S.	66286
Others		Others	
Argentina	22740		19871
China	14883		30838
Dominican Rep.	26851		20944
Hong Kong	6900		10671
Japan	6805		9437
Uruguay	11476		10877
Total for Others	89655		102638
Others not Listed	209001		147259
Grand Total	385915		316183

Softwood Lumber, PS&D Table

PSD Table						
Country	Brazil					
Commodity	Softwood Lumber				1000 CUBIC METERS	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/1995		01/1996		01/1997
Production	6050	6050	6400	6400	0	6660
Imports	0	5	0	28	0	42
TOTAL SUPPLY	6050	6055	6400	6428	0	6702
Exports	1360	1129	1430	1265	0	1455
Domestic Consumption	4690	4926	4970	5163	0	5247
TOTAL DISTRIBUTION	6050	6055	6400	6428	0	6702

Softwoo Lumber, Export Trade Matrix

Export Trade Matrix			
Country	Brazil		
Commodity	Softwood Lumber		
Time period	Jan-Dec	Units:	CUM
Exports for:	2000		2001
U.S.	666788	U.S.	718458
Others		Others	
Argentina	24546		13477
China	32267		24621
European Union	199454		149002
Mexico	55885		55741
Morocco	80169		88548
Uruguay	11269		14311
Total for Others	403590		0
Others not Listed	19149		64935
Grand Total	1089527		1129093

Softwood Plywood, PS&D Table

PSD Table						
Country	Brazil					
Commodity	Softwood Plywood				1000 CUBIC METERS	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/1995		01/1996		01/1997
Production	750	750	790	790	0	830
Imports	0	0	0	0	0	0
TOTAL SUPPLY	750	750	790	790	0	830
Exports	550	172	580	154	0	170
Domestic Consumption	200	578	210	636	0	660
TOTAL DISTRIBUTION	750	750	790	790	0	830

Softwood Plywood, Export Trade Matrix

Export Trade Matrix			
Country	Brazil		
Commodity	Softwood Plywood		
Time period	Jan-Dec	Units:	CUM
Exports for:	2000		2001
U.S.	9400	U.S.	19170
Others		Others	
Argentina	1862		984
European Union	123359		126665
Puerto Rico	3276		7087
Venezuela	4198		6747
Total for Others	132695		141483
Others not Listed	6501		11431
Grand Total	148596		172084